



Treasury Inspector General for Tax Administration

EFFORTS TO COLLECT DELINQUENT EMPLOYMENT TAXES OWED BY GOVERNMENT ENTITIES COULD BE IMPROVED

Issued on August 27, 2007

Highlights

Highlights of Report Number: 2007-10-166 to the Internal Revenue Service Commissioners for the Small Business/Self-Employed and Tax Exempt and Government Entities Divisions.

IMPACT ON TAXPAYERS

Government entities, including those in the Federal Government, are not exempt from meeting employment tax deposit and reporting requirements. As of December 2006, Federal Government entities owed approximately \$45 million in delinquent employment taxes. It is critical to the image of the United States that Federal Government entities be held to the same standards as private employers. In addition, the delivery of essential services by State and local government entities, such as school districts, could be adversely affected if employment tax delinquencies by these entities are not addressed timely.

WHY TIGTA DID THE AUDIT

This report presents the results of our review to determine whether the Internal Revenue Service (IRS) has implemented an effective process to collect delinquent employment taxes and secure delinquent returns owed by Federal, State, and local government entities. According to the IRS, 86,000 Federal, State, and local government entities in the United States are involved, as employers, in Federal employment tax withholding and wage reporting. These entities pay wages in excess of \$760 billion and employment taxes in excess of \$200 billion annually.

WHAT TIGTA FOUND

Although the IRS has enhanced its efforts to address delinquent employment taxes owed by government entities in several areas, additional actions are still needed. Specifically, progress in identifying and addressing the causes of delinquent employment taxes owed by government entities has been limited. For example, the IRS does not routinely track information

regarding how these cases are resolved or gather data on the causes of the delinquencies.

Additionally, management information regarding Federal Government entity cases assigned to the Brookhaven Campus special unit is not sufficiently comprehensive to allow for effective oversight of this critical process. It was difficult to readily determine from available management information the exact receipt/assignment date or current status of the Federal Government entity balance-due and delinquent-return cases assigned to the special unit at the Brookhaven Campus. In general, the conditions identified were attributable to a lack of comprehensive guidelines and procedures to guide the assignment, control, and resolution of Federal Government entity cases.

Finally, our review of the inventory of Federal Government entity delinquent tax cases located at the Brookhaven Campus as of December 2006 indicated 99 entities owing \$5.8 million had been assigned for resolution for more than 1 year. The IRS lacked a viable methodology for addressing aged Federal Government entity delinquencies that the Brookhaven Campus cannot readily resolve.

WHAT TIGTA RECOMMENDED

TIGTA recommended the Director, Collection, Small Business/Self-Employed Division, 1) in coordination with the Director, Federal, State, and Local Governments, Tax Exempt and Government Entities Division, develop a methodology for recording and sharing information regarding case resolution actions and causes of all Federal Government entity delinquencies; 2) enhance information sharing regarding State and local government entity delinquencies; 3) ensure comprehensive guidelines and procedures are developed to guide the assignment, control, and resolution of Federal Government entity cases; 4) reinforce existing procedures regarding issuance of a final notice of the intent to levy to a State or local government entity; and 5) continue ongoing efforts to develop a process for resolving aged delinquent Federal entity accounts.

In their response to the report, IRS officials stated they agreed with the recommendations in the report and are taking steps to improve management of casework; enhance information sharing and coordination of efforts between responsible IRS Operating Divisions; implement a new database to manage in-process inventory and capture information regarding delinquency cases worked by the Brookhaven Campus special unit; and explore alternative case resolution procedures.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2007reports/200710166fr.pdf>.

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